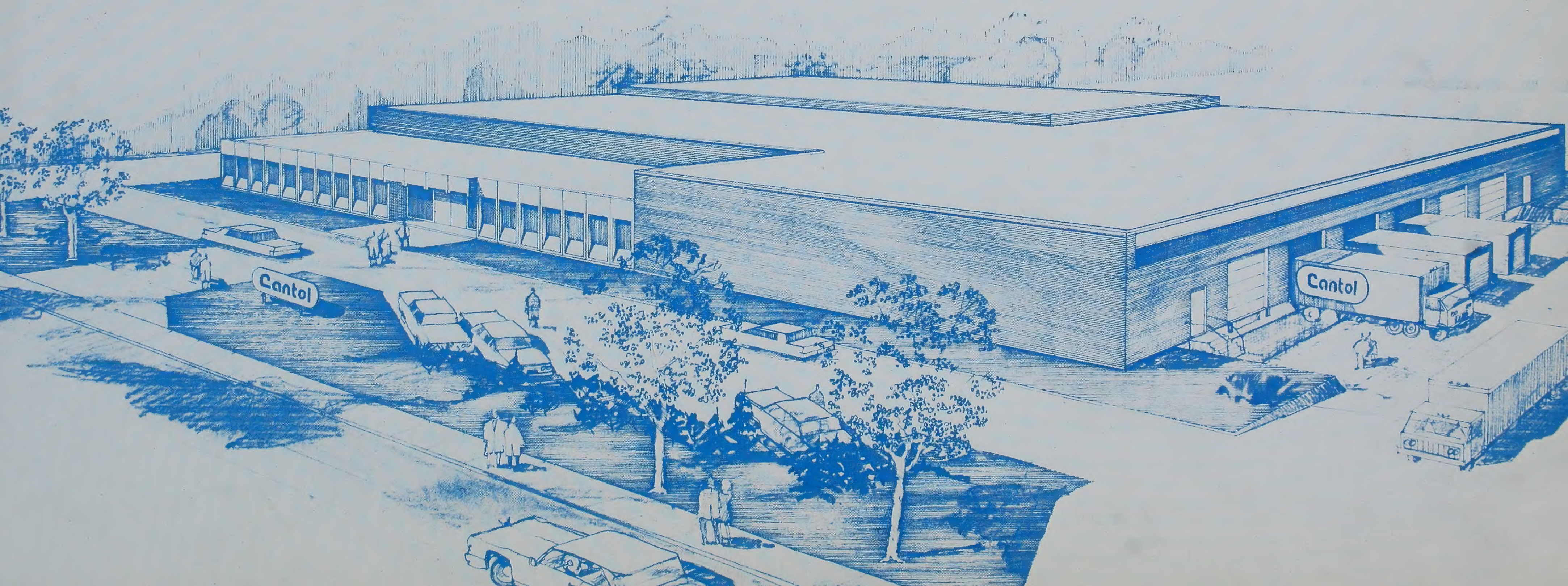
Cantol

1971 ANNUAL REPORT

Corp report



CANTOL LIMITED – CANTOL LIMITEE

(formerly Cantol Diversified Ltd.) and Subsidiary Companies

Consolidated Financial Statements for the year ended December 31, 1971.

HEAD OFFICE: 9729 Cote de Liesse, Dorval, Quebec.

EXECUTIVE OFFICES: 199 Steelcase Road, Box 2400, Don Mills, Ontario.

DIRECTORS

Edward Bayer	Jerry Sone
Austin C. Beutel	Simms Shuber
Frank D. White	Jerry J. Friedman

Cantol

COMPANIES

Momar (Canada) Limited
Canadian Permag Products Ltd.
Neo Drug Company
Northern Realty Company
La Compagnie Paulette Inc.
Warco Lubricants

Auditors: Soberman, Isenbaum, Colomby & Nisker
Attorneys: Mendelsohn, Rosentzveig, Shacter, Taviss, Shayne, Greenstein & Levitt
Bankers: Canadian Imperial Bank of Commerce
Transfer Agent and Registrars: Crown Trust Company
Listed: Canadian Stock Exchange

CANTOL LIMITED / CANTOL LIMITEE

TO THE SHAREHOLDERS:

Our 1971 year was the first full year of operations after disposal of our unprofitable divisions. The consolidation of your company in the Industrial and Specialty Chemicals, Lubricants and Drug Supply fields has been further completed.

During the year management concentrated its efforts on relocating the entire industrial and specialty chemical division in one new facility in Metro Toronto, especially built to our specifications. The enlarged plant capacity afford the opportunity to expand substantially the division's sales volume in coming years. Expenses associated with the move were completely absorbed in 1971.

The reported purchase of a small lubrication manufacturer — Warco — was completed and is likewise housed in the same location.

Sales in all divisions recorded increases in the year.

The financial position of the Company is extremely sound. Working capital exceeds $1,000,000, and the ratio of current assets to current liabilities at December 31 exceeded 5 to 1. With these resources, and now that the plant expansion has been completed, the company is considering further growth through acquisition. Any developments along these lines will be reported to you.

Your management appreciates the continued support of the Company's shareholders, and acknowledges the loyalty and dedication of the company's employees.

On behalf of the Board:

Edward Bayer — President

Austin C. Beutel — Chairman

March, 1972

AUX ACTIONNAIRES,

L'année 1971 a été notre première année complète d'exploitation depuis la vente de nos divisions peu rentables. La consolidation de votre compagnie dans les domaines des produits chimiques industriels et spéciaux, des lubrifiants et de fourniture pharmaceutique a été achevée.

Au cours de l'année, la direction a concentré ses efforts à relocaliser dans le Toronto Métropolitain les installations de la division des produits chimiques industriels et spéciaux dans une nouvelle usine construite selon nos propres devis. Cette usine plus vaste permettra une expansion substantielle du volume des ventes de la division dans les années à venir. Les frais de déménagement ont été complètement absorbés en 1971.

L'achat annoncé d'une petite fabrique de lubrifiants — Warco — a été effectué; elle fait désormais partie de la même usine.

Les ventes dans toutes les divisions ont connu une augmentation en 1971.

La situation financière de la Compagnie est très solide. Le fonds de roulement est supérieur à $1,000,000 et le rapport des disponibilités aux exigibilités au 31 décembre était de 5 à 1. Avec ces ressources et l'expansion de l'usine terminée, la compagnie envisage une croissance par acquisition. Nous vous tiendrons au courant des démarches en ce sens.

La direction apprécie l'appui continu de nos actionnaires et remercie les employés de la compagnie pour leur application au travail et leur loyauté.

Au nom du conseil d'administration.

Edward Bayer — Président

Austin C. Beutel
Président du conseil

le mars 1972

CANTOL LIMITED — CANTOL LIMITEE
(Formerly Cantol Diversified Ltd.)
AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 1971
(with comparative figures for 1970)

ASSETS	1971	1970
Current assets		
Cash and short-term deposits	$ 468,329	$ 461,384
Accounts receivable (note 2)	551,459	448,563
Inventories — at lower of cost or net realizable value	265,556	228,625
Prepaid expenses and sundry assets	52,973	35,982
Total current assets	1,338,317	1,174,554
Instalment accounts receivable — non-current portion	—	55,933
Fixed assets — at cost (note 3)	563,672	706,398
Excess of cost of investment in subsidiary companies over their net assets at time of acquisition	1,548,335	1,548,335
	$3,450,324	$3,485,220

Approved on behalf of the Board

B Bazar .... Director

Arthur G Bentley .... Director

The accompanying notes form an integral part of the consolidated financial statements.

LIABILITIES	1971	1970
Current liabilities		
Accounts payable and accrued charges	$ 234,235	$ 309,300
Income taxes payable	–	150,047
Current portion of long-term debt	18,284	17,655
Total current liabilities	252,519	477,002
Non-current liabilities		
Long-term debt (note 4)	345,879	364,163
Other (note 5)	25,000	53,393
Total non-current liabilities	370,879	417,556
Deferred income taxes	5,400	7,400
Minority interest in subsidiary company	11,690	12,158

SHAREHOLDERS' EQUITY	1971	1970
Capital stock (note 7)		
Authorized:		
1,500,000 common shares of $0.20 par value		
Issued		
1971 – 637,787 shares (1970 – 627,396 shares)	127,557	125,479
Contributed surplus	3,367,583	3,340,494
Retained earnings	211,165	1,600
	3,706,305	3,467,573
192,420 common shares of the parent company held by a subsidiary	896,469	896,469
Total shareholders' equity	2,809,836	2,571,104
	$3,450,324	$3,485,220

CANTOL LIMITED — CANTOL LIMITEE
(Formerly Cantol Diversified Ltd.)
AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1971
(with comparative figures for 1970)

	1971	1970
Balance at beginning of year	$3,340,494	$3,327,161
Excess of proceeds over par value of capital stock issued during the year (note 7)	27,089	13,333
Balance at end of year	$3,367,583	$3,340,494

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1971
(with comparative figures for 1970)

	1971	1970
Balance at beginning of year	$ 1,600	$ 579,586
Net income (loss) for the year	226,472	(577,986)
	228,072	1,600
Less: adjustment of prior years' income taxes	16,907	—
Balance at end of year	$ 211,165	$ 1,600

The accompanying notes form an integral part of the consolidated statements.

CANTOL LIMITED – CANTOL LIMITEE
(Formerly Cantol Diversified Ltd.)
AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1971
(with comparative figures for 1970)

	1971	1970
Sales	$2,617,074	$2,383,933
Operating costs and expenses		
Cost of sales, selling, general and administrative expenses, except for the following items:	2,229,107	1,917,948
Depreciation and amortization	37,150	28,139
Interest on long-term debt	16,564	18,161
Other interest	1,806	2,754
Interest earned	(29,728)	(8,926)
	2,254,899	1,958,076
Income from operations before the following:	362,175	425,857
Income taxes	173,235	218,200
Minority interest in income (loss)	(468)	771
Loss from discontinued operations (note 8)	–	323,546
	172,767	542,517
Income (loss) before extraordinary items	189,408	(116,660)
Add (deduct) extraordinary items (note 9)	37,064	(461,326)
Net income (loss) for the year	$ 226,472	($ 577,986)
Earnings per share (note 10)		
Income (loss) before extraordinary items	$ .43	($ .27)
Add (deduct) extraordinary items	.08	(1.07)
Net income (loss) for the year	$ .51	($ 1.34)

The accompanying notes form an integral part
of the consolidated financial statements.

CANTOL LIMITED – CANTOL LIMITEE
(Formerly Cantol Diversified Ltd.)
AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1971
(with comparative figures for 1970)

	1971	1970
Source of funds		
Operations		
Net income (loss) for the year	$ 226,472	($ 577,986)
Add back charges not requiring funds		
Depreciation and amortization	37,150	95,989
Deferred income taxes (decrease)	(2,000)	(4,569)
Minority interest's share in income (loss)	(468)	771
Total funds from (applied to) operations	261,154	(485,795)
Disposal of real estate properties	203,998	–
Reduction in non-current portion of instalment accounts receivable	55,933	89,828
Issue of common shares under employees' stock option plan	29,158	14,492
Disposal of assets of discontinued operations	–	698,008
Disposal of investment in and advances to a subsidiary company	–	896,497
Less: value attributed to 192,420 common shares of Cantol Ltd. received in consideration of the sale thereof	–	(896,469)
	550,243	316,561
Use of funds		
Additions to machinery, equipment and leasehold improvements	98,422	–
Provision for non-current liabilities due within one year		
Long-term debt	18,284	63,369
Other non-current liabilities	28,393	15,144
Prior years' income taxes	16,907	–
Working capital of a subsidiary company sold	–	647,199
	162,006	725,712
Increase (decrease) in working capital	388,237	(409,151)
Working capital at beginning of year	697,552	1,106,703
Working capital at end of year	$1,085,789	$ 697,552

The accompanying notes form an integral part of the consolidated financial statements.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
CANTOL LIMITED – CANTOL LIMITEE

We have examined the consolidated balance sheet of Cantol Limited – Cantol Limitee and subsidiary companies as at December 31, 1971, and the consolidated statements of income, contributed surplus, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

Soberman, Isenbaum, Colomby & Tasker

Toronto, Canada
March 7, 1971

Chartered Accountants

CANTOL LIMITED — CANTOL LIMITEE
(Formerly Cantol Diversified Ltd.)
AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1971

1. Principles of consolidation

The consolidated financial statements include the accounts of the company and all of its subsidiaries.

2. Accounts receivable

This consists of:	1971	1970
Trade accounts	$506,560	$404,542
Insurance claim on fire loss	41,750	—
Current portion of instalment accounts receivable	3,149	44,021
	$551,459	$448,563

3. Fixed assets — at cost

	Cost	Accumulated Depreciation	Net Investment 1971	Net Investment 1970
Land	$328,500	$ —	$328,500	$396,687
Buildings	144,000	21,240	122,760	269,587
Equipment	110,659	65,168	45,491	25,875
Vehicles	33,190	18,145	15,045	10,541
Leasehold improvements	54,673	2,797	51,876	3,708
	$671,022	$107,350	$563,672	$706,398

Depreciation has been provided for on the diminishing balance method at the undernoted rates:

Buildings	5%
Equipment	20%
Vehicles	30%

Leasehold improvements are being amortized over the unexpired terms of the leases

4. Long-term debt

	1971	1970
7½% first mortgage, repayable in monthly instalments of $1,597, including principal and interest, due March 15, 1976	$168,647	$175,095
11% first mortgage, repayable in monthly instalments of $425, including principal and interest, due November 5, 1974	35,516	36,723
Notes payable, without interest, repayable in instalments as follows: $10,000 annually in 1972 and 1973; $14,000 annually in 1974 through 1983	160,000	170,000
	364,163	381,818
Less: principal payments due within one year.	18,284	17,655
	$345,879	$364,163

5. Other non-current liabilities

These consist of:	1971	1970
Balance of 1970 provision for estimated losses to be incurred as a result of operations discontinued (net of current portion)	$ 25,000	$ 45,000
Deferred interest income	—	8,393
	$ 25,000	$ 53,393

6. Income taxes

As at December 31, 1971, the company has losses available for carry forward for which tax recoveries have not been recognized in the accounts. At current tax rates, the future tax credits will, if realized, amount to approximately $156,000.

The company is presently contesting income tax assessments received for the years 1965 through 1969, amounting to approximately $36,000. These amounts have been paid and have been charged off to retained earnings pending final disposition of the company's appeal.

7. Capital stock

(a) During 1971 common shares were issued for cash under employees' stock option plans, as follows:

	Number of Shares	Consideration Received
Under the 1970 stock option plan at $2.50 per share, which expired May 15, 1971	6,404	$16,010
Under the 1971 stock option plan at $3.30 per share, expiring May 15, 1972	3,987	13,157
	10,391	$29,167

Of the total consideration received, the premium of $27,089 was credited to contributed surplus.

(b) Stock options

As at December 31, 1971 common shares are reserved for the following:

(i) 10,000 shares under a stock option plan established in 1969 for executives of a subsidiary for issue up to May 1, 1974. The options are exercisable in cumulative instalments of up to 2,000 shares per annum at 90% of the closing market price on the date of exercise of the option

(ii) 13,278 shares under an employees' stock option plan established in 1971, exercisable up to May 15, 1972 at $3.30 per share

8. Loss from discontinued operations

During 1970, the company sold or discontinued the operations of certain of its subsidiaries and divisions. The results of the operations of these businesses have been shown spearately on the comparative figures as "loss from discontinued operations".

The losses incurred on the liquidation of the businesses discontinued is included as an extraordinary item.

9. Extraordinary items

The extraordinary items consist of the following:

	1971	1970
Gain on disposal of real estate properties, net of income taxes ...	$ 55,968	$ –
Fire loss of real estate property	(18,904)	–
Net loss on disposition of assets of discontinued operations, net of income taxes	–	(386,326)
Provision for estimated losses on closed stores	–	(75,000)
Extraordinary income (loss)	$ 37,064	($461,326)

10. Earnings per share

Earnings per share are calculated using the weighted average number of shares outstanding during the year. In the calculations, the 192,420 common shares of Cantol owned by a subsidiary were treated as though these shares were not issued.

Assuming the exercise of all the outstanding stock options and providing for imputed earnings at the rate of 6% before tax on the deemed proceeds on the exercise of the stock options, the fully diluted earnings per share would be:

Income before extraordinary items	$ .42
Net income for the year....................	$ .50

11. Remuneration of directors and senior officers

The total remuneration paid by the company and its subsidiaries to its directors and senior officers was $112,450 in 1971 and $136,955 in 1970.

12. Long-term leases

The company has entered into long-term leases with respect to its existing operations with various expiry dates to 1981. Minimum rentals (exclusive of taxes, insurance and maintenance costs) for the total period of five years under these leases are approximately $265,000.

In addition, the company is committed to leases on twenty-five store locations in connection with operations that have been discontinued. The gross liability under these leases approximates $261,500; however, twenty-four locations have been subleased and provision has been made in the accounts for the estimated future net losses to be incurred with respect thereto (see note 5).

13. Comparative figures

The 1970 financial statement, reported upon by the company's previous auditors, has been re-classified to conform with the 1971 reporting format.